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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001843

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STATE FOR EAP/RSP/TC, STATE PASS USTR FOR DEPUTY USTR  
BHATIA FROM DIRECTOR YOUNG

E.O. 12958: DECL: 05/26/2031

TAGS: [ECON](#) [TW](#)

SUBJECT: DUSTR BHATIA'S MEETING WITH NSC SEC-GEN CHIOU

REF: TAIPEI 1727

Classified By: Director David J. Keegan reasons: 1.4 B/D

¶1. (C) Summary: National Security Council Secretary General Chiou I-jen told Deputy USTR Bhatia that President Chen values highly Taiwan's friendship and close economic partnership with the U.S. He is eager to put the recent transit problems behind him. Chiou said Taiwan's efforts to improve economic links with China had been frustrated by Beijing's insistence on the "One China" principle. A U.S.-Taiwan FTA would pressure China to become more flexible in negotiating expanded cross-Straits links with Taiwan, Chiou said, and it would reassure other south Asian countries that an FTA with Taiwan was feasible. Ambassador Bhatia urged Taiwan to refrain from politicizing the FTA issue and to focus instead on cooperative efforts that would yield tangible economic benefits. He also stated that although an FTA was not possible now, he was not taking it off the table for the future. Taiwan and the U.S. should concentrate now on meaningful, incremental steps to strengthen their economic ties. Assistant USTR Stratford noted there is little support in the U.S. business community for a Taiwan FTA because Taiwan is small and its economy is not well-integrated with China or the larger ASEAN market. If Taiwan is able to remove travel and transport limitations into the PRC, Bhatia said, Taiwan's competitiveness and attractiveness as a regional center for U.S. business operations could both increase. This could in turn increase U.S. business support for a Taiwan FTA. End Summary.

¶2. (C) On May 25, Deputy USTR Bhatia, Assistant USTR Stratford, and AIT Director Steve Young met with National Security Council Secretary General Chiou I-jen, Vice Minister of Economic Affairs Steve Chen, and NSC Senior Advisor Connie Yang. Sec-Gen Chiou said President Chen and the DPP government valued their close friendship and economic relationship with the U.S. Chiou remarked that President Chen had stressed the importance of the TIFA talks to his senior staff well before the transit incident had occurred, and was hopeful that lingering difficulties from the transit issue would pass quickly.

"One China" Principle Stalemates Economic Progress  
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¶3. (C) Taiwan has tried repeatedly to engage the PRC to liberalize cross-Straits economic links, Chiou said, only to be stymied by PRC insistence on the "One China" principle. The Macau model is not stable, he continued, but Taiwan is hopeful that it can be used to reach at least a partial agreement on direct passenger flights within the year. Chiou said it is possible the two sides could reach agreement on "special" cargo charter flights as well. Ambassador Bhatia responded that, from an economic standpoint, direct transport

links would enable Taiwan businesses to get to their largest market in less than six hours, as well as provides additional multiplier benefits. Ambassador Bhatia also suggested that U.S. carriers might be interested in entering this potential market and offered USTR assistance to find out. Chiou said he hoped the USG would urge the PRC to speed negotiations on direct cross-Straits air links.

¶4. (C) Ambassador Bhatia remarked that strong cross-Straits economic relations are important and beneficial to both Taiwan and the PRC. He told Chiou that he had pushed this point with Beijing during his recent visit. Chiou said he believes the PRC understands the mutual advantage of improved economic links. Ambassador Bhatia opined that, if direct cross-Straits flights do go through, Taiwan should push for the inclusion of third-country nationals. Chiou said the PRC is opposed to allowing third-country nationals or airlines to fly, for fear the flights could be billed as "international."

Director Young asked rhetorically why flights between Beijing and Taipei should be treated any differently than flights between Beijing and Tokyo or Beijing and Guangzhou. Chiou said the problem is PRC politics; for example, Beijing has halted cross-Straits flights discussions over taxation questions, arguing that since China and Taiwan are the same country, there was no need to discuss taxation schemes.

¶5. (C) Ambassador Bhatia commended Taiwan for finding creative ways to preserve its competitiveness despite cross-Straits difficulties. He said Taiwan must now improve and expand its links to China if it wishes to remain competitive vis-a-vis other south Asian countries with strong ties to the Chinese economy. The U.S. is willing to help Taiwan where it can, he continued but many issues can only be resolved by Taiwan and China. Chiou repeated his hope that

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the U.S. would push China to be more flexible in its dealings with Taiwan on cross-Straits economic issues, and noted that Chinese efforts to marginalize Taiwan economically have only increased the difficulty of finding middle ground. Taiwan is less confident of proposing new ideas, said Chiou, because it is preoccupied with preserving what economic space it has, and for this reason needs U.S. help to soften China's resistance.

#### Taiwan-PRC Economic Integration Could Attract US Business

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¶6. (C) Ambassador Bhatia responded that in reality Taiwan's economy was doing quite well, with exports to both the PRC and the U.S. continuing to grow. Nonetheless, the US understands Taiwan's concerns about economic marginalization, and is willing to grow its economic relationship with Taiwan.

Bhatia said an FTA could not be contemplated at this time, with only one year left of fast-track Trade Promotion Authority left, but would not rule it out for future discussions. Bhatia also explained that in the current U.S. political environment, even straightforward trade agreements like CAFTA are controversial, and to have any chance of passage, an FTA must promise clear economic benefits and attract broad political support. Moreover, Bhatia said, to secure passage of a Taiwan FTA it is essential that it have broad support from the U.S. business community, which it does not have now.

¶7. (C) Assistant USTR for China Affairs Timothy Stratford explained the two reasons why there is little demand among the American business community for a Taiwan-U.S. FTA. First, U.S. businesses want access to the large Asian market, of which China is the largest part. Because Taiwan is not as well-integrated into the Asian marketplace as other countries, businesses centered in Taiwan cannot exploit regional economic opportunities as well as they might elsewhere. The cross-Straits restrictions on travel and cargo also damage Taiwan's competitiveness. Removing these restrictions would make Taiwan much more appealing to U.S.

companies looking to establish a base in Asia. Second, U.S. companies are hesitant to champion a Taiwan FTA for fear of PRC pressure. Taiwan should consider ways to make an FTA less threatening and more beneficial to China, Stratford said, to remove this disincentive for U.S. companies. Stratford also reminded Chiou that the U.S. has repeatedly made clear to Beijing that the U.S. rejects Beijing's argument that FTAs can only be executed between sovereign states, and that Beijing does not have a veto over U.S. trade policy with respect to Taiwan.

Don't Politicize FTA Issue  
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18. (C) Chiou said China's inflexibility leaves almost no room for Taiwan to improve cross-Strait economic relations. However, he argued, if the U.S. were to sign an FTA with Taiwan it would make Taiwan a more attractive trade partner for other south Asian nations, and increase pressure on China to become more flexible in dealing with Taiwan on cross-Strait economic issues. Bhatia urged Chiou and the Taiwan authorities to think about an FTA strictly in terms of economic, not political, benefits to Taiwan, and to avoid turning the FTA issue into a "political football."

An FTA By Another Name?  
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19. (C) NSC Senior Advisor Connie Yang responded by arguing that blame for the cross-Strait economic impasse lay with China, and its repeated rejection of Taiwan's overtures. Taiwan should be perceived by U.S. companies as a "big economy" because of Taiwan's extensive trade and investment links in the region, but Chinese efforts to marginalize Taiwan have been effective in stifling that perception. Yang said U.S. leadership is still important in the region, and if the U.S. were willing to lead the way by agreeing to an FTA with Taiwan, other countries in the region would feel safer to do the same. If an FTA is not possible, she suggested, then perhaps the U.S. could use nomenclature less objectionable to the PRC, like the "Closer Economic Partnership Agreement" (CEPA) concept used by the PRC with Hong Kong. Yang also suggested the U.S. could convince China that a U.S.-Taiwan FTA would help stabilize the Strait, and therefore would be good for China.

11. (C) Ambassador Bhatia remarked that the U.S. was openly and loudly proclaiming its strong support for Taiwan and its economy by initiating this new round of TIFA talks and by

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publicly reserving the possibility of a future U.S.-Taiwan FTA. He reminded Chiou and Yang that in order for USTR to push an FTA forward, it had to be based on the promise of solid economic benefits, not political reasons. Bhatia and Stratford suggested that for the time being, the U.S. and Taiwan should investigate the possibility of incremental, but still economically significant steps, like bilateral investment or tax agreements, to preserve and improve Taiwan's international economic living space. Although these steps may have symbolic use to Taiwan, Bhatia said, the U.S. must focus on practical reasons to go forward, like better protections for U.S. businesses in Taiwan.

12. (C) Yang said South Korea's FTA with the U.S. increases pressure on the Taiwan government to explain to its business community why Taiwan is not also included. Stratford replied that the U.S.-South Korea FTA is not necessarily a negative for Taiwan, and that if Taiwan can prepare an economic study that demonstrates how Taiwan is economically disadvantaged by it, USTR would consider it carefully.

KEEGAN